

CHARLEVOIX PUBLIC LIBRARY

CHARLEVOIX, MICHIGAN

JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

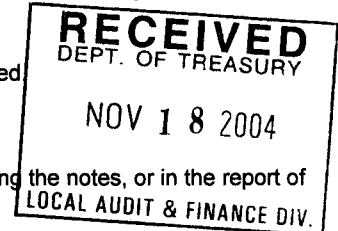
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Charlevoix Public Library	County Charlevoix
Audit Date 6/30/04	Opinion Date 9/23/04	Date Accountant Report Submitted to State: 10/21/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

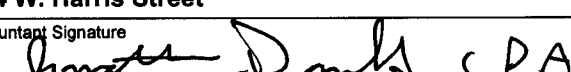


You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 10/21/04	

CHARLEVOIX PUBLIC LIBRARY

CHARLEVOIX, MICHIGAN

JUNE 30, 2004

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September 23, 2004

INDEPENDENT AUDITORS' REPORT

Charlevoix Public Library
107 Clinton Street
Charlevoix, Michigan 49720

We have audited the accompanying basic financial statements of the Charlevoix Public Library as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Charlevoix Public Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Charlevoix Public Library as of June 30, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 19-20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole except as noted in the preceding following paragraph.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

Charlevoix Public Library, a District Library located in Charlevoix County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Charlevoix Public Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2004 for the Charlevoix Public Library. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2004:

Assets	
Current Assets	\$ 439,507
Non Current Assets	
Capital Assets	790,061
Less Accumulated Depreciation	<u>(609,399)</u>
Total Non Current Assets	<u>180,662</u>
Total Assets	\$ <u>620,169</u>
Liabilities	
Current Liabilities	\$ 2,818
Non Current Liabilities	<u>15,790</u>
Total Liabilities	<u>18,608</u>
Net Assets	
Invested in Capital Assets Net of Related Debt	180,662
Restricted for Capital Projects	68,454
Unrestricted	<u>352,445</u>
Total Net Assets	<u>601,561</u>
Total Liabilities and Net Assets	\$ <u>620,169</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2004, the Library's net assets increased by \$23,643. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2004, \$47,045 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2004, \$44,749 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$2,296 for the fiscal year ended June 30, 2004.

E. Results of Operations

For the fiscal year ended June 30, 2004, the results of operations were:

	<u>Amount</u>	<u>% of Total</u>
General Revenues		
Property Taxes	\$ 270,282	60.52%
Investment Earnings	5,289	1.18%
State Sources	44,470	9.96%
Other	<u>107,912</u>	<u>24.17%</u>
Total General Revenues	<u>427,953</u>	<u>95.83%</u>
Program Revenues		
Charges for Services	8,817	1.98%
Operating Grants	<u>9,796</u>	<u>2.19%</u>
Total Program Revenues	<u>18,613</u>	<u>4.17%</u>
Total Revenues	\$ <u>446,566</u>	<u>100.00%</u>
Expenses		
Recreation and Culture	\$ <u>422,923</u>	<u>100.00%</u>
Change in Net Assets	\$ <u>23,643</u>	

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library levies .4618 mills of property taxes for operations.

For 2003-2004, the District levied \$270,282 in operating property taxes. This represented an increase of 4.72% from the prior year.

The following table summarizes the operating property tax levies for operations for the past two years:

<u>Fiscal Year</u>		<u>Operating Tax Levy</u>
2004	\$	270,282
2003	\$	258,102

2. State Sources

The majority of the state sources is comprised of penal fines received from Charlevoix County. The Library collected \$44,470 in penal fines for 2004.

3. Operating Grants

The Library funds a portion of its operations with categorical sources. For the fiscal year ended June 30, 2004, state grants accounted for \$9,796.

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

4. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	2003-2004 Fiscal Year	2002-2003 Fiscal Year	Increase (Decrease)
Salaries and Wages	\$ 166,904	\$ 154,899	\$ 12,005
Employee Fringe Benefits	41,369	50,176	(8,807)
Purchased Services	120,426	72,516	47,910
Supplies and Materials	61,085	67,418	(6,333)
Capital Outlay	14,094	18,067	(3,973)
Miscellaneous	16,658	21,937	(5,279)
Total Expenditures	\$ 420,536	\$ 385,013	\$ 35,523

A comparison of expenditures by fund is as follows:

Expenditures	2003-2004 Fiscal Year	2002-2003 Fiscal Year	Increase (Decrease)
General Fund	\$ 348,956	\$ 385,013	\$ (36,057)
Capital Projects Fund	71,580	0	71,580
Total Expenditures	\$ 420,536	\$ 385,013	\$ 35,523

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For 2003-2004, the Library amended the general fund budget in January and May 2004. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 357,850	\$ 353,570	\$ 378,112	\$ 24,542
Total Expenditures and Operating Transfers	358,200	349,125	420,536	(71,411)
Net Change in Fund Balance	\$ (350)	\$ 4,445	\$ (42,424)	\$ (46,869)

The variance in the Total Revenue Original Budget to Final Budget was a decrease of \$4,795. The variance in the Total Expenditures Original Budget to Final Budget was a decrease of \$9,075. This occurred after the Board adopted the original budget and before the final budget amendment was prepared for the fiscal year ending June 30, 2004.

H. Capital Asset

1. Capital Assets

At June 30, the Library had \$790,061 in capital assets, including buildings and improvements, equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$47,045 bringing the accumulated depreciation to \$609,399 as of June 30, 2004.

CHARLEVOIX PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

- As with other employers, the Library continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.
- In June of 2004 the District Library approved two referenda issues, one approving a maximum levy of .75 mills for bond debt and .65 mills for operating.
- The District Library sold 7.45 million dollars in Bonds on 8/12/04 to renovate a new library facility.
- The District Library plans a grand opening of the new facility in the Fall of 2006.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact Charlevoix Public Library, 109 Clinton St, Charlevoix MI 49770, 231-547-2651.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 160,124
Investments	274,393
Taxes Receivable	4,243
Prepaid Expenses	747
Total Current Assets	<u>439,507</u>

NON CURRENT ASSETS

Capital Assets	790,061
Less: Accumulated Depreciation	<u>(609,399)</u>
Total Non Current Assets	<u>180,662</u>

TOTAL ASSETS

\$ 620,169

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 2,143
Deferred Revenue	675
Total Current Liabilities	<u>2,818</u>

NON CURRENT LIABILITIES

Compensated Absences	<u>15,790</u>
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Total Liabilities

18,608

NET ASSETS

Invested in Capital Assets Net of Related Debt	180,662
Restricted for Capital Projects	68,454
Unrestricted	<u>352,445</u>

Total Net Assets

601,561

TOTAL LIABILITIES AND NET ASSETS

\$ 620,169

The notes to the financial statements are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>GOVERNMENTAL</u>
		<u>CHARGES FOR</u>	<u>GRANTS</u>	<u>ACTIVITIES</u>
		<u>SERVICES</u>		<u>NET (EXPENSE)</u>
				<u>REVENUE AND</u>
				<u>CHANGES IN</u>
				<u>NET ASSETS</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Recreation and Culture	\$ 422,923	\$ 8,817	\$ 9,796	\$ (404,310)
<u>GENERAL REVENUES</u>				
Property Taxes -General Purposes				270,282
Investment Earnings				5,289
State Sources				44,470
Other				107,912
Total General Revenues				427,953
Change in Net Assets				23,643
NET ASSETS - Beginning of Year				577,918
NET ASSETS - End of Year				\$ 601,561

The notes to the financial statmnts are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2004

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 160,124	\$ 0	\$ 160,124
Prepaid Expenditures	747	0	747
Due From Other Funds	0	68,454	68,454
Taxes Receivable	4,243	0	4,243
Investments	274,393	0	274,393
 TOTAL ASSETS	 \$ 439,507	 \$ 68,454	 \$ 507,961
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 2,143	\$ 0	\$ 2,143
Due To Other Funds	68,454	0	68,454
Deferred Revenue	3,125	0	3,125
 Total Liabilities	 73,722	 0	 73,722
<u>FUND BALANCE</u>			
Reserved for:			
Capital Projects	0	68,454	68,454
Unreserved			
Designated for Equipment Upgrades	6,000	0	6,000
Undesignated	359,785	0	359,785
 Total Fund Balance	 365,785	 68,454	 434,239
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 439,507	 \$ 68,454	 \$ 507,961

The notes to the financial statments are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2004

Total Governmental Fund Balances		\$ 434,239
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the fund		
The cost of the capital assets is	790,061	
Accumulated depreciation is	<u>(609,399)</u>	180,662
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Compensated Absences		(15,790)
Balance of taxes receivable at June 30, 2004, expected to be collected after September 1, 2004		<u>2,450</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 601,561</u>

The notes to the financial statements are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Local Sources			
Property Tax Levy	\$ 270,282	\$ 0	\$ 270,282
Industrial Facilities Tax	1,090	0	1,090
Penalties and Interest on Delinquent Taxes	475	0	475
Earnings on Investments and Deposits	5,289	0	5,289
Donations	12,619	68,454	81,073
Friends of Library	7,180	0	7,180
Copy Machine Receipts	3,522	0	3,522
Book Fines	5,295	0	5,295
Refunds and Reimbursements	3,634	0	3,634
Miscellaneous	660	0	660
Intermediate Sources			
Penal Fines	44,470	0	44,470
State Sources			
State of Michigan - Restricted Grant	9,796	0	9,796
Other			
Adjustments to Prior Year	13,800	0	13,800
Total Revenues	378,112	68,454	446,566
EXPENDITURES			
Salaries			
Librarian	36,812	0	36,812
Other	130,092	0	130,092
Employee Fringe Benefits			
Employee Insurance	15,913	0	15,913
Retirement	11,562	0	11,562
Social Security	12,937	0	12,937
Worker's Compensation	957	0	957
Purchased Services			
Legal and Professional Services	2,462	0	2,462
Administration and Bookkeeping	1,390	0	1,390
Audit	1,325	0	1,325
Utilities	11,294	0	11,294

The notes to the financial statements are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
Insurance - Property and Liability	5,404	0	5,404
Travel	2,153	0	2,153
Repairs and Maintenance	5,777	0	5,777
Other Professional and Technical	14,671	66,670	81,341
Printing/Publishing	4,370	4,910	9,280
Supplies and Materials			
Library Books	32,085	0	32,085
Library Books Processing	4,673	0	4,673
Periodicals	3,677	0	3,677
Postage	5,941	0	5,941
Audio Visual	6,067	0	6,067
Other Supplies	8,642	0	8,642
Capital Outlay			
Equipment	14,094	0	14,094
Miscellaneous			
Dues and Fees	12,830	0	12,830
Refund of Prior Year Property Taxes	1,564	0	1,564
Other	2,264	0	2,264
Total Expenditures	348,956	71,580	420,536
Excess of Revenues Over (Under) Expenditures	29,156	(3,126)	26,030
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfer In (Out)	(71,580)	71,580	0
Net Change In Fund Balance	(42,424)	68,454	26,030
FUND BALANCE - Beginning of Year	408,209	0	408,209
FUND BALANCE - End of Year	\$ 365,785	\$ 68,454	\$ 434,239

The notes to the financial statements are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

Net change in Fund Balances Total Governmental Funds	\$26,030
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities.	
These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(47,045)
Capital Outlay	44,749
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred Revenue - Beginning of Year	(1,659)
Deferred Revenue - End of Year	2,450
Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	14,908
Compensated Absences - End of Year	(15,790)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$23,643</u>

The notes to the financial statments are an integral part of this statement.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Charlevoix Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Library's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The Charlevoix Public Library was created as a District Library on January 1, 1997, by agreement between the Charlevoix Public School, City of Charlevoix, and Townships of Charlevoix, Eveline, Hayes, Marion, and Norwood pursuant to the District Library Establishment Act. The Library provides services to the District defined as the jurisdictional limits of the Charlevoix Public Schools. The Library board consists of seven members, appointed one each by the governmental entities creating the District. Prior to July 1, 1997, the Library was operated as a fund of the Charlevoix Public School District.

In addition, the Library's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

For the fiscal year 2004, the Library adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library has governmental funds called the General Fund and the Capital Projects Fund.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

Other Non-Major Fund:

The Capital Projects Fund accounts for the acquisition of fixed assets or construction of major capital projects.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

D. Assets, Liabilities and Equity

1. Cash and Investments

- (I) The investment policy of the Library allows it to invest in instruments allowed by State of Michigan statutes. State statutes authorize the Library to invest funds as follows:
- (a) In Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
 - (c) In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
 - (e) In banker's acceptances of United States banks.
 - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
 - (g) In mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 to 80a-74, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund received collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
 - (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

- (i) In investments pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years
Buildings	50 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$500 and all books.

3. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statements net assets.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. The budget was amended twice during the year.
5. Budget appropriations lapse at the end of the fiscal year.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

6. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

III. DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP

A. Deposits and Investments

The Library's deposits and investments are all on deposit with Citizens Bank of Charlevoix and Bank One Trust Division in Detroit.

A breakdown of the deposits and investments is as follows:

Deposits - At year-end, the carrying amount of the Library deposits was \$160,124 and the bank balance was \$161,065, of which \$100,000 was covered by federal depository insurance and \$61,065 was uninsured and uncollateralized.

Investments - At year end, the investments were as follows:

	CARRYING AMOUNT	MARKET VALUE
Bank One Trust Division in Detroit - Bank One Business Market Index Account	\$ 274,393	\$ 274,393

B. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets:				
Books	\$ 463,508	\$ 30,906	\$ 0	\$ 494,414
Furniture and Fixtures	81,687	7,606	0	89,293
Equipment	36,800	6,237	0	43,037
Leasehold Improvements	9,659	0	0	9,659
Buildings	153,658	0	0	153,658
Subtotal	\$ 745,312	\$ 44,749	\$ 0	\$ 790,061
Accumulated depreciation	(562,354)	(47,045)	0	(609,399)
Net capital assets	\$ 182,958	\$ (2,296)	\$ 0	\$ 180,662

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Depreciation for the fiscal year ended June 30, 2004 amounted to \$47,045.

C. Property Taxes

Property taxes levied by the Library are collected by various municipalities and periodically remitted to the Library. Property taxes are assessed as of January 1 and billed and due July 1st. Unpaid taxes become delinquent as of September 14th and are subject to penalties and interest after that date.

For the year ended June 30, 2004, the Library levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	.4618

The county in which the Library is located has a tax revolving fund which allows the county to pay off the various taxing units for their share of the current year real property taxes returned delinquent. At June 30, 2004, the Library had taxes receivable for personal property taxes as summarized below:

	<u>GENERAL FUND</u>
1999 Tax Roll	\$ 166
2000 Tax Roll	221
2001 Tax Roll	610
2002 Tax Roll	1,453
2003 Tax Roll	1,793
	<u>\$ 4,243</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable-General Fund	\$ 2,450	\$ 0
Grant Receipts Received, But Not Yet Utilized	0	675
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 2,450</u>	<u>\$ 675</u>

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

D. Long-Term Debt

A summary of the Long-Term Debt transactions for the Library for the year ended June 30, 2004, is as follows:

	<u>COMPENSATED ABSENCES</u>
Long-Term Debt at July 1, 2003	\$ 14,908
Net Increase/ (Decrease)	<u>882</u>
Long-Term Debt at June 30, 2004	\$ <u>15,790</u>

E. Compensated Absences Liability

Employees of the Library are entitled to paid sick days depending on job classification, length of service and other factors. At June 30, 2004, the accrued expense for compensated absences was \$15,790. This liability is recorded only in the government-wide financial statements as a noncurrent liability.

F. Short-Term Debt

The Library incurred no short-term debt activity for the year.

G. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2004, were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 68,454	\$ 0
Capital Projects Fund	<u>0</u>	<u>68,454</u>
	\$ 68,454	\$ 68,454

Interfund transfers are as shown in the individual fund financial statements at June 30, 2004, were:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 71,580
Capital Projects Fund	<u>71,580</u>	<u>0</u>
	\$ 71,580	\$ 71,580

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

IV. OTHER INFORMATION

A. **Employee Retirement System**

Plan Description. Charlevoix Public Library contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. General oversight of the retirement system resides with the MPERS' board. MPERS provides retirement and disability and survivor benefits with annual 3% increases in pensions of members who are in the Member Investment Plan. With certain exceptions, pension recipients are also eligible for Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage. Benefits are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Office of Retirement Systems, Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103 or by calling 1-517-322-5103.

Charlevoix Public Library has adopted a second retirement plan for eligible employees hired after July 1, 1997. The aforementioned plan is administered by ICMA Retirement Corporation and is a defined contribution money purchase plan.

Pension Funding Policy. Employees first hired before January 1, 1990, could make a one-time irrevocable election to contribute to the Member Retirement Plan (MIP). Employees first hired on or after January 1, 1990, are automatically included in MIP. Employees in the MIP who were hired before January 1, 1990, contribute 3.9% of their salaries to the plan. Employees hired on or after that date contribute 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4/3% of all wages over \$15,000. Only those employees hired before July 1, 1997 are eligible to participate in this plan. Charlevoix Public Library is required to contribute at an actuarially determined rate. During the year ended June 30, 2004, the District was required to contribute 12.99% of covered compensation for all four quarters. The contribution requirements of plan members and Charlevoix Public Library are established and may be amended by the MPERS board. The Library contributions to the MPERS for the years ended June 30, 2004, 2003, and 2002 were \$8,080, \$7,623, and \$6,324 respectively, and were equal to the required contributions for each year.

Post-employment Benefits. Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the Library's total contribution to the MPERS plan discussed above.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

In regards to the second retirement plan, all full-time employees are eligible to participate in the plan. The Library is required to contribute 11.00% of the employee's regular wages (not including overtime and bonuses). The employee is not required to make contributions to the plan. The Library's contribution to the plan for the year ended June 30, 2004 was \$3,482.

B. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Library has not been informed of any special assessments being required in the past 2 years.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

C. Commitments

The Library has entered into an agreement with the City of Charlevoix for the option to purchase a parcel of property for an amount not to exceed \$488,460. As consideration for this option, the Library is required to pay all expenses associated with building maintenance for the property as well as interest expenditures not to exceed \$17,500 incurred by the City in relation to the acquisition of this property through the option term. This option agreement expires February 15, 2005.

The voters of the District Library approved a bond issue of a maximum levy of .75 mills on June 12, 2004, which authorizes the Library to borrow \$7,450,000 for the purpose of paying the cost of acquiring and renovating the property mentioned above. These bonds were sold on August 12, 2004.

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2004

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Local Sources				
Property Tax Levy	\$ 276,750	\$ 265,000	\$ 270,282	\$ 5,282
Industrial Facilities Tax	0	0	1,090	1,090
Penalties and Interest on Delinquent Taxes	1,000	300	475	175
Earnings on Investments and Deposits	7,000	4,400	5,289	889
Donations	21,600	30,900	12,619	(18,281)
Friends of Library	0	0	7,180	7,180
Copy Machine Receipts	0	0	3,522	3,522
Book Fines	0	0	5,295	5,295
Refunds and Reimbursements	0	0	3,634	3,634
Miscellaneous	0	0	660	660
Intermediate Sources				
Penal Fines	42,000	44,470	44,470	0
State Sources				
State of Michigan - Restricted Grant	8,000	7,000	9,796	2,796
Federal Sources				
Miscellaneous	1,500	1,500	0	(1,500)
Other				
Adjustments to Prior Year	0	0	13,800	13,800
Total Revenues	357,850	353,570	378,112	24,542
EXPENDITURES				
Salaries				
Librarian	0	0	36,812	(36,812)
Other	158,800	170,000	130,092	39,908
Employee Fringe Benefits				
Employee Insurance	41,800	27,800	15,913	11,887
Retirement	0	0	11,562	(11,562)
Social Security	0	0	12,937	(12,937)
Worker's Compensation	0	0	957	(957)
Purchased Services				
Legal and Professional Services	11,800	24,025	2,462	21,563
Administration and Bookkeeping	0	0	1,390	(1,390)

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2004

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
Audit	0	0	1,325	(1,325)
Utilities	12,300	12,300	11,294	1,006
Insurance - Property and Liability	5,000	5,500	5,404	96
Travel	0	0	2,153	(2,153)
Repairs and Maintenance	8,400	6,000	5,777	223
Other Professional and Technical	0	0	14,671	(14,671)
Printing/Publishing	0	0	4,370	(4,370)
Supplies and Materials				
Library Books	55,600	50,000	32,085	17,915
Library Books Processing	0	0	4,673	(4,673)
Periodicals	0	0	3,677	(3,677)
Postage	0	0	5,941	(5,941)
Audio Visual	0	0	6,067	(6,067)
Other Supplies	0	0	8,642	(8,642)
Capital Outlay				
Equipment and Furniture	18,000	13,000	14,094	(1,094)
Miscellaneous				
Dues and Fees	40,000	37,000	12,830	24,170
Refund of Prior Year Property Taxes			1,564	(1,564)
Other	6,500	3,500	2,264	1,236
Total Expenditures	358,200	349,125	348,956	169
Excess of Revenues Over (Under) Expenditures	(350)	4,445	29,156	24,711
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfer In (Out)	0	0	(71,580)	(71,580)
Net Change In Fund Balance	(350)	4,445	(42,424)	(46,869)
FUND BALANCE - Beginning of Year	408,209	408,209	408,209	0
FUND BALANCE - End of Year	\$ 407,859	\$ 412,654	\$ 365,785	\$ (46,869)

CHARLEVOIX PUBLIC LIBRARY
CHARLEVOIX, MICHIGAN

SCHEDULE OF 2003 TAX ROLL
YEAR ENDED JUNE 30, 2004

	<u>TAXABLE VALUATION</u>	<u>TAXES ASSESSED</u>	<u>TAXES COLLECTED</u>	<u>TAXES RETURNED DELINQENT</u>
<u>GENERAL OPERATIONS</u>				
<u>.4618 MILLS</u>				
<u>CHARLEVOIX COUNTY</u>				
City of Charlevoix	\$ 187,290,291	\$ 86,477	\$ 81,551	\$ 4,926
Charlevoix Township	144,142,252	66,557	62,142	4,415
Eveline Township	38,195,290	17,637	16,157	1,480
Hayes Township	138,016,780	63,736	58,020	5,716
Marion Township	56,793,174	26,220	24,021	2,199
Norwood Township	36,657,762	16,925	15,405	1,520
	601,095,549	277,552	<u>257,296</u>	<u>20,256</u>
Less:				
Downtown Development Authority	<u>(15,743,635)</u>	<u>(7,270)</u>		
	<u>\$ 585,351,914</u>	<u>\$ 270,282</u>		

Baird, Cotter and Bishop, P.C.

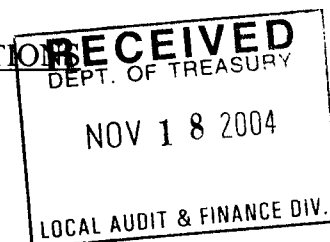
CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

September 23, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

Charlevoix Public Library
Charlevoix, Michigan



Dear Members of the Board and Administrators:

As a result of our audit of the financial statements of the Charlevoix Public Library for the year ended June 30, 2004, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Library:

Condition of Accounting Records and Accounting Controls

We would like to commend the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

Examples of controls that should be considered for implementation are keeping a printed copy of the bank reconciliations for each month and maintaining support for documentation for all receipt and disbursement transactions.

Payments to and From the Boyne District Library

The Library previously had an agreement with the Boyne District Library whereby a percentage of the operating taxes, penal fines and state aid were to be paid to the Boyne District Library on an annual basis. The Library had also been paying property taxes from certain parcels of property located in Hayes Township that were thought to belong to the Boyne District Library. It was later determined that these taxes in fact, really belonged to the Charlevoix District Library and were remitted to the Boyne District Library in error. As a result, a verbal agreement was reached to offset current liabilities against amounts paid in error in past years.

We recommend that a new formalized written agreement be developed between the Charlevoix District Library and the Boyne District Library that more correctly represents the current understanding surrounding payments of these types of revenues from the Charlevoix District Library to the Boyne District Library.

Capital Projects and Debt Fund

A new Capital Projects Fund was established this year to account for the capital contributions, bond proceeds and the expenditures related to the future renovation of the former Charlevoix Middle School property. The June 30, 2005 fiscal year will also see the establishment of a Debt Retirement Fund to account for the future debt millage and bond payments.

We suggest that separate bank accounts be established to account for the activities of the Debt Retirement Fund as well as the Capital Projects Fund. In addition, the Library will be required to fully account for the expenditure of the bond proceeds. Therefore, it may be beneficial to segregate the private capital contributions from the bond proceeds even though both revenue sources will be accounted for in the Capital Projects Fund.

Budgeting

The Library currently adopts a General Fund budget that includes the ten major categories of expenditures. Our audit noted that the actual expenditures in several of these categories were in excess of the amounts of the final budget. The budget is intended to be a tool in providing direction as to how management expects to expend their resources during the year and it should be amended whenever it has been determined that actual results will exceed amounts budgeted in a particular category prior to their expenditure. The State of Michigan has set forth specific requirements relative to the format and content of budget appropriations. We will provide you with additional information regarding these requirements so that future budget appropriations will be in compliance with those requirements.

The State of Michigan no longer requires a formal budget be adopted for the Debt Retirement Fund or the Capital Projects Fund. However, the Library may find it beneficial to develop informal budgets for these funds to aid in monitoring the related revenues and expenditures of those funds.

Continuing Disclosure Requirements

The 2004 Library Building and Site Bond Issue contained a provision that requires the Library to provide continuing disclosure information to the bond holders until all bonds are paid off. The specific required disclosures can be found in Appendix C of the official bond issue statement dated August 12, 2004 and can be included as supplemental information with the audit report or the Library can provide this information separate from the audit.

The Library may find it most beneficial to consider an agreement with Stauder, Barch & Associates to meet the annual continuing disclosure update requirements rather than including it as supplemental information to the annual audit report.

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for all governmental financial statements. For the Charlevoix District Library these changes were implemented in the June 30, 2004 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
2. Several new types of financial statements are now included that reports financial information on a District Library wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Library.

We commend the Library for their diligent efforts and assistance necessary to implement these rather radical changes as required by this new reporting pronouncement.

Internal Controls

During the course of our audit of the basic financial statements of the Charlevoix Public Library, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements:

- (a) The relatively small number of people involved in the accounting functions of the Library make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the Board's awareness of this limitation in their internal controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

The foregoing is a communication which is required by Statement of Auditing Standards Number 60. We realize, however, that it might not be financially cost effective for the board to establish a larger accounting staff to allow implementation of additional segregation of duties.

We wish to take this opportunity to thank the Board for awarding this firm the audit assignment of the Library, and the management for their assistance in helping us fulfill this audit assignment. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

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